

Message Text

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FM AMEMBASSY PARIS
TO SECSTATE WASHDC 4560
USDA/WASHDC
INFO ALL OECD CAPITALS
AMEMBASSY BELGRADE
USMISSION GENEVA

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USOECD

USMTN

PASS AGR FOR SCHUH, WITCHER AND MILLER

E.O. 11652: N/A
TAGS: EAGR OECD
SUBJ: WORKING PARTY NO. 3 (DAIRY PRODUCTS) OF THE
COMM FOR AGR MEETING, 3-4 JULY 1978

1. SUMMARY. MILK PRODUCTION IN OECD AREA
CONTINUES TO INCREASE. MILK PRODUCTION IN CENTRALLY
PLANNED EUROPEAN ECONOMIES MAY FALL SHORT OF PLANS.
WORLD MILK PRODUCTION OUTLOOK IS FOR CONTINUED GROWTH
IN 1978 BUT AT A RATE LESS THAN THE 3 PERCENT INCREASE
RECORDED FOR 1977. REPORT ON INTERNATIONAL DAIRY
CONGRESS REVEALS DIVERGENT POSITIONS AMONG BOTH
DEVELOPED AND LESS DEVELOPED COUNTRIES. SMALL EXPERT
GROUP TO BE CONVENED THIS FALL TO STUDY FUTURE DIREC-
TIONS FOR WORK FOR WP3 (DAIRY PRODUCTS). END SUMMARY.
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2. CHAIRMAN ELECTED IS ELSCAMP (NETHERLANDS). NO
VICE-CHAIRMAN ELECTED.

3. DELEGATES DISCUSSED THE CURRENT SITUATION AND
SHORT-TERM OUTLOOK FOR DAIRY PRODUCT PRODUCTION AND
CONSUMPTION THROUGH 1978. THE EC DELEGATE GAVE AN

OVERVIEW OF THE DAIRY SITUATION IN THE COMMUNITY. USING THE TERM "FRIGHTENING DEVELOPMENT" HE INDICATED THAT WHILE COW NUMBERS REMAIN RELATIVELY STABLE YIELD INCREASES HAVE BEEN ON THE ORDER OF 2 PERCENT PER YEAR AND THAT A 2.5 PERCENT INCREASE CAN BE FORESEEN FOR 1978. FRANCE IS THE ONLY EXCEPTION WITH HERD DECLINE ABOUT OFFSETTING YIELD IMPACT ON PRODUCTION. YIELD INCREASES ARE SUPPORTED BY (A) MOVEMENT TOWARD CONCENTRATION OF COWS IN LARGER SIZED HERDS ON LARGER FARMS WITH A FOCUS ON PRODUCTIVITY AND (B) STRONG MILK PRICES RELATIVE TO FEED COSTS. POSITIVE SIGNS PARTIALLY OFFSETTING THIS "FRIGHTENING DEVELOPMENT" ARE (A) HIGH LIQUID MILK CONSUMPTION IN FRANCE, (B) INCREASES IN CHEESE CONSUMPTION IN PART DUE TO HIGH BEEF PRICES AND CONSUMER SUBSTITUTION OF CHEESE FOR BEEF AND (C) STABLE BUTTER CONSUMPTION EXCEPT IN THE UK AND GERMANY WHERE IT CONTINUES TO DECLINE. MILK USE FOR FEED APPEARS TO BE REACHING ITS LIMIT WITHIN THE COMMUNITY AND AS A CONSEQUENCE, BUTTER AND SKIMMED MILK PRODUCTION IS ESTIMATED TO INCREASE 3 TO 4 PERCENT IN 1978 OVER 1977 LEVELS.

4. NEW RULES FOR THE USE OF THE FUNDS GENERATED BY THE CO-RESPONSIBILITY TAX IN THE EC HAVE RECENTLY BEEN ESTABLISHED. PROCEEDS FROM THIS PRODUCER TAX WILL BE USED TO PROMOTE INTERNAL AND EXTERNAL UNCLASSIFIED

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MARKETS FOR DAIRY PRODUCTS. THE EC INDICATED THAT THEY HAVE NOT YET DETERMINED THE FORM OR APPROACH THAT WILL BE TAKEN WITH RESPECT TO THIRD COUNTRIES. THE UK INDICATED THAT THE TAX IS VIEWED BY THEM AS A TOOL FOR MANAGING THE MARKET. FOR EXAMPLE, THE FUND COULD BE USED AS A SUBSIDY TO DECREASE THE PRICE OF PRICE SENSITIVE DAIRY PRODUCTS AND THUS EXPAND THE MARKET. THE AUSTRALIAN DELEGATION WARNED THAT MEASURES TAKEN THROUGH THE USE OF FUNDING GENERATED BY THIS TAX SHOULD NOT SHIFT THE BURDEN OF ADJUSTMENT TO THIRD COUNTRIES.

5. THE UK GAVE A USEFUL IN-DEPTH ANALYSIS OF THEIR DAIRY SITUATION. THE 1978 FORECAST RELATIVE TO 1977 IS FOR TOTAL MILK PRODUCTION TO INCREASE BY 6.6 PERCENT WITH BUTTER PRODUCTION UP 14 PERCENT, CHEESE PRODUCTION UP 3 PERCENT, WHOLE MILK POWDER UP 27 PERCENT, AND SKIM MILK POWDER UP SLIGHTLY. THEIR INTERPRETATION OF FACTORS INFLUENCING THE DAIRY SITUATION IS AS FOLLOWS.

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IN ADDITION TO STRUCTURAL CHANGES CONCENTRATING COWS
IN LARGER HERDS IS A SHIFT FROM THE USE OF HAY TO
SILAGE THUS REDUCING THE WEATHER IMPACT ON PRODUCTION.
THE MILK TO CONCENTRATE PRICE RATIO HAS BEEN VERY
FAVORABLE ALTHOUGH THIS IS LIKELY TO CHANGE DURING THE
WINTER OF 1978-79. THE EC MEASURES TO CURB PRODUCTION
ARE QUITE EFFECTIVE IN THE UK. THIRTY THOUSAND COWS
WERE ON APPLICATION BEFORE THE RECENT PRICE REVIEW
AND THERE WILL LIKELY BE MORE THIS COMING WINTER
IN PART DUE TO THE LIFTING OF THE WEIGHT LIMIT. CON-
SUMPTION IN THE UK HAS BEEN ADVERSELY AFFECTED
BY THE PHASE-OUT OF THE CONSUMER MILK SUBSIDY AND THE
GENERAL ECONOMIC SLUMP IN MID-1977. MOST LIQUID
MILK IS USED IN TEA AND COFFEE AND THIS USAGE HAS
DECLINED DUE TO DRASTIC PRICE INCREASES FOR BOTH
TEA AND COFFEE. MILK SUBSTITUTES ARE BEING PUSHED
IN THE DOMESTIC MARKETS WITH POWDERED WHITENERS
NOW HOLDING APPROXIMATELY 3 PERCENT OF THE MARKET.
THE CHEESE MARKET GROWTH IN THE UK IS IN THE CHEDDAR
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TYPE OF WHICH LARGE STOCKS ARE ON HAND. THERE IS NOT ENOUGH BUTTER-MAKING CAPACITY TO SWITCH AWAY FROM CHEESE PRODUCTION. BUTTER STOCKS ARE AT RECORD LEVELS AT THE PRESENT TIME DUE TO IMPORTERS MOVING IN STOCKS TAKE ADVANTAGE OF THE 7.5 PERCENT DEVALUATION OF THE GREEN POUND.

6. OTHER MILK SITUATION DEVELOPMENTS IN THE OECD AREA ARE AS FOLLOWS. CANADA REPORTED ATTEMPT TO DIMINISH SEASONAL PRODUCTION FLUCTUATIONS BY SETTING MARKET SHARE QUOTAS FOR PRODUCERS ON A 4-MONTH BASIS. CANADA ALSO IS MAKING PRELIMINARY ATTEMPT TO INTERGRATE FLUID AND INDUSTRIAL MILK MARKET SYSTEMS. JAPAN WILL NOT KNOW WHETHER THEY HAVE A SURPLUS UNTIL THE END OF SUMMER. IF THEY HAVE A HOT SUMMER, FLUID MILK DEMAND WILL RISE SUBSTANTIALLY. AUSTRALIA REPORTED DETAILS NOT YET FIRM BUT THEY ARE MOVING TO ADJUST PRODUCTION TO EXPORT DEMAND CONDITIONS. THEY WILL BE PLACING A LIMIT ON THE AMOUNT OF PRODUCT ELIGIBLE FOR UNDERWRITING PRICES. EXCESS PRODUCTION TO THESE LIMITS WILL RECEIVE THE EXPORT MARKET PRICE. THE EXPORT PRODUCTION IN THE PRESENT SEASON IS PROJECTED TO BE UNCHANGED FROM THE SEASON JUST ENDED. SWITZERLAND REPORTED THAT IN THE 1978-79 MILK MARKETING YEAR THE EFFECT OF QUOTAS WILL BE DIMINISHED SINCE THE QUOTA WILL BE POOLED TO THE CO-OPS RATHER THAN ALLOCATED TO INDIVIDUAL PRODUCERS. PRODUCTION QUOTAS ARE UNDER INTENSE POLITICAL PRESSURE AND A GENERAL REFERENDUM WILL BE CALLED IN DECEMBER TO DETERMINE WHETHER THEY WILL BE CONTINUED. SPAIN IS EMBARKING ON PROGRAM TO LIMIT INCREASE IN MILK PRODUCTION BY LIMITING INCREASE IN PRODUCER PRICE. CANNED MILK MANUFACTURING CAPACITY IS OPERATING AT

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ITS LIMIT AND INDUSTRY IS SO FAR UNWILLING TO INVEST IN DRYING EQUIPMENT. THEY EXPECT INCREASED CHEESE CONSUMPTION AS A CONSUMER SUBSTITUTE FOR DECREASED SUPPLY AND HIGHER PRICED FISH. FINLAND IS LOWERING PRODUCTION CEILINGS BY 4 PERCENT AND IF CEILINGS ARE EXCEEDED, A MARKET FEE WILL BE LEVED AGAINST ALL PRODUCTION THE FOLLOWING YEAR.

7. IN THE CENTRALLY-CONTROLLED ECONOMIES OF EUROPE, THE USSR WAS REPORTED TO HAVE MILK PRODUCTION LEVELING OFF IN 1978 AFTER THE SHARP INCREASE IN 1977. THE

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REST OF EASTERN EUROPE SHOWS SLOW PRODUCTION INCREASES
WITH L1978 OUTPUT LIKELY TO FALL SHORT OF PLANS.
PART OF THIS IS DUE TO A SHORT FEED SITUATION.

8. A BRIEF REPORT ON THE 20TH CONGRESS OF THE
INTERNATIONAL DAIRY FEDERATION HELD IN PARIS, 26-30
JUNE INDICATED THAT THIS WAS THE FIRST CONGRESS
WITH AN ECONOMIC COMPONENT IN THE PROGRAM. EIGHTY
COUNTRIES WERE REPRESENTED AT THE CONGRESS. WITH
RESPECT TO INTERNATIONAL MARKETS, THE DEVELOPED
COUNTRIES GROUPED AROUND TWO DIVERGENT POSITIONS.
ONE GROUP CALLED FOR EXPANSION OF INTERNATIONAL
MARKETS FOR DAIRY PRODUCTS WHILE THE OTHER
GROUP FAVORED RESTRICTION OF PRODUCTION IN EACH
COUNTRY TO MEET DOMESTIC NEEDS. THE DEVELOPING
COUNTRIES ALSO GROUPED AROUND TWO POSITIONS. ONE
GROUP CALLED FOR TECHNICAL ASSISTANCE TO HELP THEM
BECOME SELF-SUFFICIENT IN DAIRY PRODUCTION WHILE THE
OTHER GROUP CALLED FOR THE DEVELOPING (IMPORTING)

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COUNTRIES TO BE PARTIES TO AN INTERNATIONAL DAIRY AGREEMENT THAT WOULD INCLUDE ASSUREANCE OF SUPPLY. ONE HUNDRED THIRTY-TWO LECTURES WERE PRESENTED AT THE CONGRESS. THESE LECTURES ARE BEING PRINTED IN THEIR ORIGINAL LANGUAGE FOR SALE BY THE FEDERATION AT 5 FRENCH FRANCS EACH. US INDUSTRY REP HEALY PROPOSED TO THE CONGRESS AS HIS OWN IDEA, THE TRANSFER OF GOVERNMENT STOCKS TO AN INTERNATIONAL AGENCY FOR DAIRY FOOD AID.

9. AFTER CONSIDERABLE DISCUSSION, DELEGATES AGREED TO CONVENE A SMALL INFORMAL EXPERT GROUP UNDER CHAIRMANSHIP OF ELSCAMP (NETHERLANDS) TO MEET THIS FALL TO OUTLINE STUDY DIRECTIONS FOR PROPOSED FURTHER WORK OF WP3. GENERAL AREA OF INQUIRY WILL BE THE ROLE OF PRICE IN REGULATING PRODUCTION.

10. NEXT MEETING OF WP3 (DAIRY PRODUCTS) TENTATIVELY SCHEDULED FOR MAY 1979 TO BE TIMED TO TAKE ACCOUNT OF NEW EC DECISIONS IN THE DAIRY SECTOR.
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